



**TESTIMONY OF MICHIGAN ELECTRIC AND GAS ASSOCIATION
ON RENEWABLE PORTFOLIO STANDARDS LEGISLATION**

Good morning. My name is Jim Ault and I am offering this testimony for the Michigan Electric and Gas Association (MEGA), a trade organization of investor-owned electric and gas utilities providing service in Michigan. Thank you for this opportunity to provide testimony concerning the renewable portfolio standards (RPS) legislation. MEGA's position in this matter is generally supportive of renewable energy where it makes sense, but we oppose the adoption of an RPS mandate as proposed in the three bills. Further, existing hydroelectric generating capacity, with no air emissions or fossil fuel expense, should not be excluded from the definition of renewable energy.

MEGA Description

MEGA's electric utility members provide service in about 20 counties, mostly in the Upper Peninsula. The largest member is Indiana Michigan Power Company serving approximately 125,000 customers in four SW Lower Michigan Counties. The smallest is Wisconsin Public Service Corporation, serving 8,948 electric customers in Menominee County. The other electric members are Alpena Power Company, Edison Sault Electric Company, Upper Peninsula Power Company, We Energies and Xcel Energy. Four of these companies provide service both in and outside of Michigan. The Upper Peninsula companies, except for Xcel Energy, are interconnected with the transmission facilities of the American Transmission Company, which operates in Wisconsin, Illinois and Upper Michigan.

Capacity Need Situation

The position of MEGA opposing RPS mandates is motivated in large part by the operational and service circumstances of the members. None of them are facing the need to add significant amounts of electric generating capacity. Improvements to the U.P. transmission network, part of ATC's Northern Umbrella project, are increasing access to base load and renewable energy sources outside of Michigan. Xcel Energy, We Energies and WPS operate multiple state integrated systems with generating facilities planned for the entire system. Indiana Michigan is part of the multi-state AEP integrated system and operates the 2100 MW DC Cook nuclear plant in Michigan, with capacity far greater than the company's Michigan needs. Alpena Power does not operate generating facilities but obtains electric supply under a long-term wholesale power contract with Consumers Energy. The MEGA electric companies do not need significant additional Michigan supply. They have planned for the near future and the proposed RPS mandate will increase their costs by requiring unplanned new power procurement.

Hydroelectric Resources

Several of the MEGA members have significant amounts of hydroelectric capacity, primarily due to the long term availability of that renewable resource in the Upper Peninsula. Edison Sault can meet up to 40% of its supply needs with the St. Marys River hydro facilities (35 MW).

UPPCO (about 30 MW) and We Energies (about 75 MW) have significant hydro facilities in the Central and Western U.P. and I&M has small hydro units in SW Lower Michigan. Further, the multi-state companies plan for system supply on an integrated basis and renewable facilities of various types located outside of Michigan are part of the overall supply mix for all customers.

Position on RPS Proposals

MEGA is opposed to the statewide renewable capacity mandate in all three bills (HB 4319, 4539 and 4562) for the fundamental reasons that the member companies do not need new capacity and the RPS requirements will increase power supply costs. On a statewide basis, the RPS compliance cost will be expensive. In general, MEGA agrees with the type of cost analysis described in the May 22, 2007 letter from Doug Roberts, Jr. of the Michigan Chamber of Commerce to members of this Legislature (compliance cost of about \$6.2 billion).

Another primary MEGA concern is over the exclusion of hydroelectric facilities from the definition of renewable energy in HB 4319 and 4539. This, in effect, penalizes all utilities with existing hydroelectric resources by giving no credit to this resource in determining compliance. Yet hydroelectric power has no emissions or fossil fuel requirements. The land and ponds provide recreational benefits to the public. Hydroelectric power is defined as a renewable resource in Act 141 (MCL 460.10g).

With the MEGA members operating integrated multistate systems, commerce across state lines is already a continuous occurrence. Restrictions in any RPS proposal to in-state Michigan renewable resources would be a step backward for these companies and possibly create legal issues arising from the commerce clause of the U.S. Constitution. HB 4562 limits renewable energy credits to in-state resources, clearly penalizing the integrated multi-state systems.

The industry structural issues in Michigan, known to this Committee, do not support a large, statewide mandate. The most significant of these issues are:

- **Wholesale Market** – The MISO wholesale market, a potential outlet for renewable power, is still developing.
- **Limited Resources** – Michigan's potential for renewable energy is limited; wind is the only resource available in large amounts needed for an RPS, yet the wind capacity factor is relatively low compared to locations outside of Michigan such as the Buffalo Ridge in Minnesota (approaches 40% capacity factor versus Michigan in the mid-20% range).
- **Rising Costs** – Escalating demand for wind turbines, in part attributable to state mandates, contributed to recent cost increase and delays in obtaining equipment.
- **Transmission Limitations** – Michigan areas favorable for renewable resource development are often located in regions where transmission of large quantities of power is limited or unavailable. The cost associated with necessary transmission improvements affects project economics.

- **Timing** – availability of new wind turbine equipment is delayed due to recent demand. Wind studies take up to 2 years for specific sites. Local opposition and siting issues can delay or stop projects. These issues must be addressed project-by-project.

MEGA's opposition to mandates for renewable energy is in no way an opposition to the reasonable integration of renewable generating resources into the supply mix. This is not an "all or nothing" debate. Many of the MEGA electric utilities have significant experience with the use of hydroelectric and other renewable generating resources in and near the Upper Peninsula areas favorable to that technology. Members are also actively pursuing renewable energy in their integrated systems; for example, AEP, Xcel Energy, We Energies and WPS are actively developing new renewable projects for their integrated systems. A better approach is to promote the use of renewable energy where it is reasonable and allow individual providers to continue to make the assessments regarding the best technology to serve their generating supply needs. Voluntary targets and incentives are a more appropriate approach than mandates, since each Michigan utility faces different capacity needs and resource potential depending on its region and system. Nearly all Michigan electric utilities have installed green energy programs allowing customers to choose renewable energy as part of their supply.

Thank you for this opportunity to provide comments and I would be happy to answer any questions.

Dated: June 20, 2007

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